

# **CALIFORNIA CONSERVATION CORPS**

Review Report

## **PROPOSITION 40 GRANTS TO LOCAL CONSERVATION CORPS**

*July 1, 2002, through February 28, 2007*



**JOHN CHIANG**  
California State Controller

June 2007



**JOHN CHIANG**  
**California State Controller**

June 21, 2007

Lucia Becerra  
Acting Director  
California Conservation Corps  
1719 24<sup>th</sup> Street  
Sacramento, CA 95816

Dear Ms. Becerra:

The following final report presents the results of the State Controller's Office (SCO) review of the fiscal operations and practices of the California Conservation Corps (CCC) relative to Proposition 40 local assistance grant funds. The review was conducted pursuant to the State Controller's audit authority under Section 12410 of the *Government Code*.

The SCO review identified significant control deficiencies and oversight lapses that resulted in a lack of proper accountability over grant expenditures. These problems must be addressed, as the CCC is preparing to allocate and distribute an additional \$45 million in bond proceeds under Proposition 84. In summary, our review found that:

1. The CCC did not perform adequate reviews to ensure that the local conservation corps (LCCs) met all state requirements before grant agreements were finalized. None of the project files reviewed contained any evidence of evaluation by the department's staff to ensure that the proposed projects met state requirements. In some cases, it was virtually impossible to establish proper accountability because the grant agreements do not clearly define the purpose and scope of the project.
2. The CCC made little if any effort to monitor the LCCs' activities and expenditures. Review of project files found scant documentation of oversight activities. We found no evidence of on-site inspection by the CCC staff. The LCCs were not required to submit periodic progress reports, which the CCC would need in order to monitor or track the status of the projects.
3. Some LCCs did not adhere to internal control requirements; this could result in grant funds being used inappropriately without the CCC's knowledge. For example, despite a requirement in the grant agreement specifying that grant advance payments shall be placed in a separate interest-bearing account and used exclusively for the purpose outlined in the project application, an LCC deposited grant funds for classroom renovations into its general checking account and used them to pay rent. Another LCC used advance payments for classroom renovation to temporarily alleviate its cash-flow difficulties.

4. The CCC did not establish adequate oversight and control measures to safeguard the State's assets and to provide proper accountability over grant funds. For example, we found no evidence that the CCC made any evaluation of the financial well-being of the LCCs in relationship to their ability to successfully complete the proposed projects. In addition, common business practice dictates independent appraisal to support real estate transactions. However, the CCC did not require such appraisals on property acquired with grant funds—property that typically costs in excess of \$1 million—in order to support that the amount paid was reasonable.
5. The CCC's budget for grant administrative expenditures appears to be arbitrary and does not reflect the department's actual administrative and oversight activities. The CCC's staff could not provide us with documentation showing the rationale or basis for determining how much to budget for administrative expenditures or what activities were to be performed. We could not find any evidence showing that any portion of the CCC's administrative budget had been specifically earmarked for oversight activities. In addition, the department could not provide documentation on how it arrived at the amount of administrative expenditures that were eventually charged against the appropriations.
6. A CCC staff member apparently provided erroneous advice to an LCC, thus unnecessarily complicating the LCC's project construction effort. In response to inquiries from an LCC, a CCC staff member, apparently without obtaining legal advice, told the LCC that prevailing wage requirements were not applicable in a construction project because of the non-profit status of the LCC. The LCC solicited bids and awarded contracts based on this premise and later found out that it is not exempt from the prevailing wage requirement, which increased the total cost of construction from \$2.6 million to \$3.2 million. To avoid abandoning the project, the LCC had to sell another property that it had acquired with Proposition 40 funds.

Although our review did not disclose significant instances of inappropriate use of grant funds, we believe the LCCs could have easily used the bond funds improperly without the CCC's knowledge because of the oversight lapses and control deficiencies noted in this report. We recommend that, when allocating and distributing Proposition 84 funds, the CCC develop and implement a plan that includes appropriate formal policies and procedures to provide proper accountability over grant funds.

On May 18, 2007, we provided a draft version of this review report to the CCC for review and comment. The department's response is included in this report as Attachment A. In summary, the CCC agreed with our findings and recommendations.

The CCC provided a copy of our draft report to each of the ten LCCs for its review. A compilation of the LCCs' responses to specific segments of our draft report is included in this report as Attachment B. In addition, Fresno LCC provided a separate response to our draft report; it is included as Attachment C. In general, the LCCs provided additional explanatory or clarifying information that does not impact the essence of our findings and recommendations. Our comments on some of the LCCs' responses are included as Attachment D.

Throughout the course of our review, we received excellent cooperation from your staff. Their effort and assistance is appreciated.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

JVB:wm

# Contents

## **Review Report**

<b>Introduction .....</b>	<b>1</b>
<b>Proposition 12 and Proposition 40 Grants .....</b>	<b>1</b>
<b>Review Scope, Objectives, and Methodology .....</b>	<b>2</b>
<b>Conclusion .....</b>	<b>3</b>
<b>Findings and Recommendations .....</b>	<b>5</b>
<b>Appendix—Proposition 40 Grant Funds Disbursed to Local Conservation Corps.....</b>	<b>14</b>
<b>Attachment A—CCC’s Response to the Draft Review Report</b>	
<b>Attachment B—LCCs’ Responses to the Draft Review Report</b>	
<b>Attachment C—Fresno LCC’s Response to the Draft Review Report</b>	
<b>Attachment C—SCO’s Comments to LCCs’ Responses</b>	

# Review Report

## Introduction

The State Controller's Office (SCO) conducted a review of the fiscal operations and practices of the California Conservation Corps (CCC). The review was initiated in response to complaints from a vendor that the CCC was repeatedly making duplicate payments on some invoices while failing to make payments on other invoices. We undertook the review to assess the adequacy of the CCC's controls in its disbursement functions. During the risk-assessment phase of our review, we found evidence suggesting possible control deficiencies and oversight lapses in the CCC's administration of Proposition 12 and Proposition 40 bond funds that were passed through the CCC to local non-profit organizations in the form of grants. Accordingly, we expanded the scope of our review to include selected bond expenditures.

During the course of our review, we learned that the CCC is scheduled to receive another \$45 million in bond funds through Proposition 84 under funding arrangements and requirements similar to those for the Proposition 40 grants. We believe the issues related to the CCC's administration and oversight of Proposition 40 bond expenditures that we identified during our review could be useful in improving the department's current efforts to implement Proposition 84 grants. Accordingly, this report presents our findings and recommendations regarding the CCC's administration of bond grants in order to provide timely information to state administrators. Our findings and recommendations regarding the CCC's internal controls over its general expenditures will be reported in a separate report.

## Proposition 12 and Proposition 40 Grants

The CCC administers two bond funds that make up the majority of moneys that are granted to local entities. The two bond funds are \$2.1 billion under the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (Proposition 12), and \$2.6 billion under the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40).

Proposition 12 made available \$12.5 million to the CCC for grants to local conservation corps to complete capital outlay and resource conservation projects. From this amount, the State deducted \$365,000 for "external administration" such as bond issuance costs and interest and loan charges. Another \$539,000 was allocated to the CCC for the department's administrative activities, leaving \$11,586,000 available for grants to local conservation corps.

Proposition 40 made available \$20 million to the CCC for the acquisition, development, restoration, and rehabilitation of land and water resources. Of the \$20 million, \$15 million was designated for the CCC to provide grants to local conservation corps for acquisition and development of facilities, and \$5 million was to be retained by the CCC for resource conservation activities. From the \$15 million in local assistance funds, \$525,000 was deducted for "external administration" and \$367,000 was allocated for CCC's administrative expenses, leaving

\$14,108,000 available for grants to local conservation corps. The CCC, in turn, executed grants of approximately \$1.2 million to 11 local conservation corps for capital acquisitions and improvements activities. The Appendix lists the 11 local conservation corps (LCCs) and the amount of grant funds each corps received.

In this report, the term “LCC” refers to programs operated by nonprofit organizations that are certified pursuant to Section 14406 of the *Public Resource Code*. The LCCs have missions similar to that of the CCC in that they provide to youth both training and work experience on local conservation projects. The local conservation corps serve youth in more urban settings and do not maintain residential facilities.

## **Review Scope, Objectives, and Methodology**

We focused our review efforts on Proposition 40 grant funds because we believe the activities associated with Proposition 40 grants carry a higher risk, as state bond funds were used to acquire and/or improve real property of non-public entities. In addition, after we initiated our review, auditors from the Department of Finance informed us that they would audit the CCC’s use of Proposition 12 grant funds. We reviewed the financial statements and records of 10 of the 11 local conservation corps that received Proposition 40 grants from the CCC. We did not review the financial records of the Los Angeles Conservation Corps (LACC) because auditors from the state Department of Finance were conducting an audit of the LACC’s use of Proposition 40 funds. Similarly, we did not review the \$5 million in Proposition 40 grant funds that were to be used by the CCC for resource conservation activities because the Department of Finance was auditing such expenditures.

Our review objectives were to:

- Assess the effectiveness of the CCC’s control and oversight over local conservation corps projects funded through Proposition 40 funds; and
- Ensure that the LCCs properly spent Proposition 40 funds in accordance with grant requirements.

To accomplish the above review objectives, we performed the following procedures:

- Reviewed and evaluated the CCC’s system of internal control, especially with respect to policies and procedures pertaining to awarding and administration of Proposition 40 grant funds.
- Interviewed CCC officials to gain an understanding of the CCC’s systems and procedures for payment processing and grant administration.
- Reviewed pertinent laws and regulations, including all documents related to the Proposition 40 initiative.
- Reviewed CCC guidelines to which local conservation corps must adhere in carrying out grant activities and in incurring grant expenditures.

- Reviewed CCC accounting records to determine the amount of funds disbursed to each LCC.
- Reviewed the CCC's grant files to gain an understanding of the purpose and intent of the grants and to gather evidence concerning the extent of efforts by the CCC staff in monitoring and overseeing the grant projects.
- Conducted field visits and reviewed records of 10 of the 11 LCCs to ensure that grant funds were spent in accordance with state guidelines and grant requirements and that expenditures were supported with adequate documentation. Records and documentation we reviewed included:

For real property acquisition projects:

- Appraisals
- Escrow files
  - Escrow Instructions
  - Purchase Agreements
  - Preliminary Title Reports
- Title conveyances
  - Grant Deeds or Trust Deeds
- Loan documents
  - All mortgages or promissory notes using the acquired property as collateral
- Accounting records
- Independent Auditor's Annual Reports for the periods corresponding to the projects

For construction/improvement projects:

- Bid documents
- Construction contracts
- Change orders
- Progress payment invoices
- Copies of checks paid to contractors
- Inspection reports
- Completed project reports
- Accounting records

For all grants:

- Grant contracts with CCC
- Payment invoices submitted to CCC
- List of LCC board members at the time of the grant contract
- LCC board minutes

## Conclusion

Our review did not disclose significant instances of inappropriate use of grant funds by the ten LCCs included within the scope of the review. However, it should be noted that some grantees had considerable latitude and discretion as to how to use grant funds because in some grant agreements the purpose and scope of the projects were not clearly defined (see Finding 1). In addition, because of the oversight lapses and control deficiencies discussed in Finding 2 and Finding 3, the grantees could have easily used the bond funds inappropriately without the CCC's knowledge.



On January 24, 2007, the Governor signed Executive Order S-02-07, which outlines the Governor's guidelines on providing accountability for Strategic Growth Plan bond funds. In summary, the three-part accountability structure requires state agencies administering Strategic Growth Plan bonds to ensure proper control over bond funds through the following measures:

- **Front-End Accountability:** Creating a strategic plan with performance standards for projects prior to the expenditure of funds.
- **In-Progress Accountability:** Documenting what ongoing actions are needed to ensure that the infrastructure projects or other activities funded from bond proceeds are staying within the scope and costs that were identified.
- **Follow-Up Accountability:** Auditing completed projects to determine whether expenditures were in line with goals laid out in the strategic plan.

We found the CCC's administration and oversight of Proposition 40 bond funds to be deficient when measured against the above criteria. As it prepares to award additional grants under Proposition 84, the department should implement appropriate control measures as outlined under Executive Order S-02-07 to provide proper accountability over the use of public funds.

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

# Findings and Recommendations

**FINDING 1—  
The CCC’s project files do not contain adequate documentation to demonstrate that the department performed adequate reviews to ensure that the grantees meet all state requirements before grant agreements were finalized.**

According to the Request for Proposal (RFP) for Proposition 40 projects that the CCC issued in 2002, each LCC was to submit an application package to the CCC for evaluation by the CCC Bond Unit before the grant agreement was finalized. Appendix A of the RFP provides a checklist of the documents that the LCC must include in the application package. Examples of documents include the following:

- Project application form, including a certification that the project is consistent with the bond guidelines
- Project proposal narrative
- Project location map with enough detail to allow a person unfamiliar with the area to locate the project
- Acquisition schedule and project timeline

Our review of the project files at the CCC found the following conditions:

- None of the ten project files reviewed contained all of the documents listed in the application package checklist. Some of the missing documents are essential for contract evaluation. For example, three of the ten project files did not contain project proposals from the grantees describing the purpose and scope of the proposed project.
- None of the ten project files reviewed contained any evidence of evaluation—such as review notes or a review checklist—by the CCC’s Bond Unit to ensure that the proposed projects meet state requirements before grant agreements were executed. While such evaluations may in fact have been performed on an informal basis, the absence of documentation raises questions as to the adequacy of any evaluation performed, especially as the project files do not contain documents that are essential in the evaluation process.
- Some grant agreements do not clearly define the purpose and scope of the project. Four of the ten grant agreements we reviewed contained no description of what the project was intended to accomplish. Instead, the scope section of the contracts contained merely standard agreement language, as follows:

...the CCC shall provide funding to the GRANTEE for acquisition and development of facilities to support the (name of local conservation corps).

Given this vague description of project scope, it would be virtually impossible for the CCC staff to establish proper accountability, as the LCCs could essentially use the funds in any manner as long as the activities could be construed to be related to acquisition and development of facilities.

**FINDING 2—  
Evidence suggests that  
the CCC made little if  
any effort to monitor the  
LCCs' grant activities  
and expenditures.**

As we reviewed the CCC's project files and interviewed officials at the LCCs, it became evident that the CCC's oversight effort has been, at best, minimal. Specifically, we found the following issues during our review:

- Project files contain scant documentation of oversight activities. The only existing documentation consists of correspondence between the CCC and the LCCs during fiscal years 2002-03 and 2003-04. There was no documentation of communication between the CCC and the LCC staff since the end of fiscal year 2003-04, possibly because the CCC disbanded its Bond Unit due to budgetary considerations. Moreover, in reviewing the correspondence that exists in the project files, we found that most were related to payment requests initiated by the LCCs, and were not proactive actions or inquiries by the CCC staff to assess the status of the projects.
- According to the RFP for Proposition 40 projects that the CCC issued in 2002, the CCC project officer was to make a final on-site inspection before processing the LCC's final payment request. The CCC had no documentation to demonstrate that its staff had made on-site visits to the LCCs. Most LCC administrators told the SCO auditors that the CCC staff did not make on-site inspections of the acquired properties and construction projects.
- The LCCs were not required to submit periodic reports on the status of the projects. Without such reports, and without making any field visits, it is unclear how the CCC staff could monitor or track the status of the projects.

According to the grant agreement between the CCC and the LCCs, the CCC must approve any change in project scope in advance. However, because the CCC did not actively perform monitoring and oversight activities, some LCCs made significant changes in project scope without the CCC's knowledge and approval. The following are some examples:

- Tulare County Conservation Corps' (TCCC) Proposition 40 project included the purchase of a church to be converted into use as a secured parking lot. The funds were also to be used to provide partial funding for construction of an administrative building. The CCC was not aware that the TCCC had sold the church to subsidize the construction of the administrative building (see Finding 6). The TCCC may have had legitimate reasons for changing its plans; however, as it advised us, it did not inform or seek approval from the CCC for the changes and, indeed, we found no evidence of such in the CCC's files.
- After the seller rejected San Jose Conservation Corps' (SJCC) bid on the building approved for a Proposition 40 grant, the SJCC purchased a building at a different location. The SJCC, on its own, edited the contract to include the new property and attached it to the original cover of the grant agreement without notifying the CCC. During audit fieldwork, the SJCC provided us with a copy of the contract that included the handwritten modification. We did not find the modified version of the contract in the CCC's project file, nor did we find any

other evidence that the CCC had reviewed and approved the modification.

- Through use of its Proposition 40 funds, the Sacramento Local Conservation Corps (SLCC) acquired an office building on January 19, 2005, and a warehouse on April 5, 2005. The sales purchase agreement with the seller of the office building provided a leaseback provision, giving the seller the right to maintain tenancy for a period up to six months after the property was transferred to the SLCC. During our onsite visit to the SLCC in February 2007, we found both buildings unoccupied. The SLCC had leased the office building to the prior owner for just over three months for a monthly income of \$5,000. According to the SLCC, it had receive \$16,503 in rent income that was deposited in a fund to be used for renovation of the building. The property has remained vacant since May 2005 while the SLCC continues to pay a monthly lease for occupying its current office building. Moreover, through conversation with its staff, we learned that the SLCC is contemplating selling the office building. According to Exhibit E of the grant agreement between the CCC and the SLCC, the grantee “shall use the property for the purposes for which the Grant was made and make no other use of sale or other disposition of the property, except as consistent with the Act and authorized by the CCC.” We found no evidence indicating that the CCC knew or approved the SLCC’s activities or the action it is contemplating relative to the properties acquired through the use of Proposition 40 funds.

**FINDING 3—  
Some LCCs failed to  
adhere to established  
program internal control  
requirements.**

Our review found that some of the LCCs did not adhere to specific internal control requirements specified in their contracts with the CCC. These internal control requirements were designed to ensure the legality and propriety of State payments. Again, because of inadequate oversight and review by the CCC, these conditions were not detected. Our review did not identify a significant amount of improper payments. However, given the oversight lapses and control deficiencies, the LCCs could have easily used bond funds inappropriately without the CCC’s knowledge. Following are examples of issues we noted during our review:

- Failure to establish a separate account to provide accountability over advance payments received from the State. The grant agreement between the CCC and the East Bay Conservation Corps (EBCC) specifies that, if grant funds are advanced, the EBCC shall place these funds in a separate interest-bearing account, setting up and identifying such account prior to the advance. From August 31, 2004, to December 4, 2005, the EBCC received five advances from the State, totaling \$1,018,118, to renovate a classroom building. Under the terms of the contract, the EBCC should have deposited all such advance payments into a separate interest-bearing account. Our analysis revealed that:
  - Grant funds for classroom renovations were used to pay rent. On June 4, 2004, the EBCC’s Board of Directors was presented with a budget indicating that Proposition 40 funds would be used to pay the rent for the school for one year. Our review of bank statements

revealed that \$55,220 of Proposition 40 money was used to pay the school's rent. The grant agreement between the CCC and the EBCC specifies that, "funds allocated in the grant agreement shall be used exclusively for the purpose intended as outlined in the project application."

- State advance payments, earmarked for classroom renovation, apparently were used to temporarily alleviate the EBCC's cash-flow difficulties. As of December 2004, the EBCC had incurred \$237,748 in project costs against the advance of \$1,018,118. Thus, it should have had \$780,370, plus related interest, in a separate account restricted for renovation expenses related to the classroom. Instead, the \$1,018,118 in advance payments were deposited into the EBCC's general business expense checking account and were transferred out of the account for unspecified reasons during December 2004. Moreover, even though the EBCC did deposit funds into a separate account in January 2005, the amount deposited was \$391,158—far less than the \$780,370 in advances that had not been spent. Our review determined that, except for the previously noted \$55,220 in ineligible rent expenses, the EBCC ultimately spent the amount of Proposition 40 fund received on eligible renovation expenses. Nevertheless, the use of grant advance payment for EBCC's general operating expenses, even on a temporary basis, is inappropriate, as the contract between the CCC and the EBCC specifies that grant funds shall be used exclusively for the purpose outlined in the project application.
- LCCs received payments without providing adequate documentation to support the validity of such payments. When invoicing the State for payments, the LCCs must submit supporting documentation to demonstrate that the invoiced amounts are for valid expenditures incurred and that the expenditures are consistent with the intended purpose of the contract. Our review found that the CCC authorized payments without adequate documentation to support the invoiced amounts. The following are some examples:
  - The Fresno EOC Conservation Corps (FEOC) was awarded a grant based on a proposal for land acquisition and construction of a building on the acquired land. In February 2005, the land was granted to the FEOC from the Fresno Redevelopment Agency for a nominal cost. Design and construction of the building began shortly thereafter. On May 26, 2006, the FEOC received \$1.24 million in Proposition 40 grant funds after submitting a preliminary title report to the CCC. According to the grant agreements for real property acquisitions, "Copies of title papers (escrow) and estimated closing costs from the title company must be attached to the payment request . . . prior to advance payments." However, the preliminary title report on property shows that the CCC released to the FEOC, without any evidence that the property was in escrow, two advance payments totaling \$1.24 million. Apparently, by claiming that the costs to be incurred were for property acquisition, the FEOC was able to receive advance payment without providing documentation related to actual costs of the construction project.

- According to the RFP that the CCC issued in 2002, each LCC was to provide the CCC with a confirmed copy of the deed of trust or grant deed within 15 calendar days from the date of acquisition of the real property, in order to demonstrate that the transaction has been executed. Our review found no evidence that any of the LCCs submitted such documentation to the CCC for property acquisition projects.

**FINDING 4—  
CCC did not establish  
adequate oversight and  
control measures to  
safeguard the State’s assets  
and to provide proper  
accountability over use of  
grant funds.**

As noted previously, our review of the CCC’s grant management system found various oversight and control deficiencies resulting from its failure to adhere to established requirements as specified in contracts, RFPs, and other program guidelines. We believe these control and oversight measures are inadequate to safeguard the State’s assets and provide proper accountability over use of grant funds to allocate additional grant funds under Proposition 84. At the minimum, the CCC should take the following additional control measures:

- **Incorporate into the grant application review process an evaluation of the grant applicant’s financial viability to successfully complete the project.** The value of assets acquired through the use of grant funds is at risk if the grantee is unable to continue operation or does not have the financial resources to fully complete the project. Our review found no evidence that the CCC made any evaluation of the financial well-being of the LCCs, some of which may have been in financially tenuous positions. For example, in a footnote to the 2005 audited financial statements for the East Bay Conservation Corps (EBCC), the independent auditors raised questions about the EBCC’s ability to continue operation, stating that the EBCC’s expenses significantly exceeded its revenues two years in a row. In another example, the Orange County Conservation Corps’ (OCCC) executive director was forced to make temporary personal loans of \$43,000 and \$31,000 to the OCCC in December 2006 so that it could make payroll. The OCCC obtained a \$50,000 loan and a \$300,000 line of credit using the property it acquired with Proposition 40 funds as collateral. If the OCCC ceases to operate or defaults on the loans, the value and usefulness of the property acquired with bond funds could diminish considerably.
- **Require the grantee to obtain independent appraisals on real estate acquisitions made with grant funds.** The CCC did not require LCCs to obtain appraisals on real estate acquisitions made with Proposition 40 grant funds. As the property acquired typically costs in excess of \$1 million, common business practice would dictate independent appraisals to demonstrate that the amount paid for property was reasonable. During our visits to the LCCs, we found that the only corps with appraisals on file were those that used the publicly funded property as collateral on loans or lines of credit. The LCCs that did not have appraisals to support the purchase price of the real property are as follows:
  - Conservation Corps of Long Beach—\$1,240,909
  - Orange County Conservation Corps—\$1,240,909
  - San Jose Conservation Corps—\$1,240,909
  - Sacramento Conservation Corps—\$980,000

- **Clearly delineate the State's right and interest in the long-term use of property acquired with bond funds.** The administering state department is responsible for ensuring that grant awards be used for the long-term benefit of the intent and purpose of the funding initiative. This responsibility was reflected in the suggested contract language provided to Proposition 40 administering departments by the bond counsel during the proposition bond coordinating meeting in August 2002. In part, the suggested language states:

*Grantee shall use the property for the purposes for which the Grant was made and shall make no other use or sale or other disposition of the property, except as consistent with the Act and authorized by the State. This Agreement shall not prevent the transfer of the property from the Grantee to a public agency, if the successor public agency assumes the obligations imposed by this Agreement. If the use of the property is changed to a use that is not permitted by the Act, or if the property is sold or otherwise disposed of, an amount equal to (1) the amount of the grant (2) the fair market value of the real property, or (3) the proceeds from the sale or other disposition, whichever is greater, shall be reimbursed to the State. If the property sold or otherwise disposed of is less than the entire interest in the property funded in the Grant, an amount equal to either the proceeds from the sale or other disposition of the interest or the fair market value of the interest sold or otherwise disposed of, whichever is greater, shall be reimbursed to the State. [Emphasis added]*

The CCC included only the first sentence of the suggested language in its contracts with the LCCs. The entire italicized portion, which underscores the State's ongoing interest in the acquired property, was omitted. This omission may place the real property acquisitions and capital improvements at risk of being used for purposes other than those approved by Proposition 40. Moreover, our review found that several LCCs used property acquired with Proposition 40 funds as collateral for loans and/or lines of credit. We found no evidence that any of the LCCs notified the CCC prior to obtaining such loans. It would appear that, at a minimum, the CCC should have an opportunity to review the loan documents before the transaction is finalized to ensure that the documents include recognition of the State's ongoing interest in the property.

- **Require periodic status reports from the grantees concerning the implementation progress of the grant projects.** As noted in Finding 2, the CCC did not require the grantee to submit periodic reports to provide timely and relevant information about matters such as the status of the projects, costs incurred to date, problems encountered, or other issues of interest. Without such information on a timely basis, it would be extremely difficult for the CCC to provide proper oversight and monitoring of the grant projects.
- **Incorporate a plan to audit the grant projects as a part of the grant administration and oversight process.** Exhibit E of the grant agreement between the CCC and the LCCs contains a requirement that the LCCs shall maintain an accounting system that provides an audit trail of grant funds. However, we noted that the CCC did not initiate any plan or arrangement to audit any of the 11 LCCs that

received Proposition 40 funds. In comparison, the California Department of Parks and Recreation (California State Parks), which also administers Proposition 40 grant funds, sets aside funds from its budgeted administrative expenditures and enters into interagency agreements with the Department of Finance for audits of grant expenditures. Although the amount of Proposition 40 funds administered by the CCC (\$20 million) is not significant in comparison with the amount administered by California State Parks (\$1.19 billion), the CCC nevertheless should have made arrangements to provide for some audit coverage over the grant funds. According to a Bureau of State Audits' report issued in April 2005, California State Parks allocated \$11.2 million to the Department of Finance to audit its Proposition 40 grants. It should be noted that, under Executive Order S-02-07, issued by the Governor on January 24, 2007, follow-up accountability (audits) is one of the essential elements in the accountability process and should be incorporated into the CCC's current effort to implement Proposition 84.

**FINDING 5—  
The CCC's budget for grant administrative expenditures appears to be arbitrary and does not reflect the department's responsibility to properly carry out its program administration and oversight responsibilities.**

Of the total of \$14,475,000 that was made available to the CCC for grants to the LCCs, the State allocated \$366,887 (approximately 2.5%) for the CCC's administrative costs. The following schedule shows the annual amount budgeted for the CCC's Proposition 40 administration costs and the amount reportedly incurred from the 2002-03 fiscal year to the 2006-07 fiscal year.

<u>Year</u>	<u>Appropriation</u>	<u>Reported Expenditures</u>	<u>Balance</u>
2002-03	\$ 71,000	\$ 30,489	\$ 40,511
2003-04	75,887	41,410	34,477
2004-05	74,000	72,812	1,188
2005-06	74,000	74,000	—
2006-07	72,000	(Not yet reported)	72,000
Total	<u>\$ 366,887</u>	<u>\$ 218,711</u>	<u>\$ 148,176</u>

The CCC's staff could not provide us with documentation showing the rationale or basis for determining how much to budget for administrative expenditures or what projected administrative activities were to be performed during each year. However, the allocation does not appear to be commensurate with the department's actual administrative activities. Although the annual appropriations were fairly constant, actual activities could fluctuate significantly from year to year. For example, the CCC's Proposition 40 workload should be minimal during the 2006-07 fiscal year, as all but one of the projects had already been completed.

Similarly, the CCC's staff could not provide any documentation on how it arrived at the reported administrative expenditures that were charged against the appropriations. It would seem that the department's administrative workload should have been higher during the initial years, as it had to develop program guidelines, execute grant agreements, and engage in other activities to assist the grantees with project development and implementation. As shown in the above schedule, the CCC's reported that administrative expenditures during its two initial years were significantly lower than for the 2004-05 and 2005-06 fiscal years.



However, the 2004-05 fiscal year presumably included fewer administrative activities, as the CCC had eliminated its Bond Unit, which was responsible for administration of the department's grant programs.

In comparison with the California Department of Parks and Recreation (California State Parks), the percentage of grant funds allocated to administrative expenditures does not appear to be sufficient to carry out the necessary administrative and oversight activities. As noted above, the State allocated approximately 2.5% (\$366,887 out of \$14,475,000) of available grant funds for the CCC's administrative activities. To date, as the department's Proposition 40 grant activities are nearing completion, the CCC reported \$218,711 in expenditures, or 1.5% of the grant total. In comparison, based on the Bureau of State Audits report, issued in April 2005, the State allocated a total of \$61.9 million (approximately 5%) to California State Parks for administering its portion of Proposition 40 grants totaling about \$1.19 billion. The \$61.9 million figure includes amounts specifically allocated to certain oversight activities such as audits of Proposition 40 grants by the Department of Finance. In comparison, we could not find any evidence showing that any portion of the CCC's administrative budget had been specifically earmarked for oversight activities.

**FINDING 6—  
The CCC's staff  
apparently provided  
erroneous advice to an  
LCC, thus unnecessarily  
complicating the LCC's  
project-construction  
effort.**

According to officials at the Tulare County Conservation Corps (TCCC), the TCCC sought advice from the CCC as to whether its construction project needed to comply with the State's prevailing wage requirements. A CCC staff member told TCCC officials, apparently without obtaining legal advice, that prevailing wage requirements were not applicable in the construction project because of the non-profit status of local corps. The officials at the TCCC further noted that, during the bid process, all of the general contractors who submitted bids raised questions as to whether they needed to comply with the prevailing wage requirements; they were told no, based on the CCC's advice. The contractors then submitted bids based on this premise. After contracts were awarded, the local carpenters' union raised concerns about the prevailing wage requirements and TCCC sought an opinion from a local attorney. Upon review, the attorney advised the TCCC that the law allowed no exemptions from prevailing wage on publicly funded construction and that the corps should begin paying prevailing wage. At that point, the TCCC contacted the general contractor and asked him to recalculate the bid based on prevailing wages and to apply the higher pay rate retroactively to work performed. Adjusted to reflect prevailing wages, projected construction costs went from \$2.6 million to \$3.2 million. To continue the project, the TCCC sold a church that it had acquired with Proposition 40 funds.

**RECOMMENDATIONS**

We recommend that the CCC adopt all of the elements specified in the Governor's Executive Order S-02-07 and adopt a plan to ensure proper accountability in its current effort to implement a program of allocating and distributing Proposition 84 funds to LCCs.

The plan should include formal policies and procedures governing program administration, including, but not limited to, the following:

- Contract review and evaluation to ensure that the scope of the proposed projects is clearly defined and that the grant agreements contain measurable performance standards and benchmarks.
- Assessment of the viability of the prospective grantees to successfully complete the proposed projects.
- Requirements for future use and disposition of assets acquired through the use of State grant funds.
- Payment process and procedures, including documentation requirements for each type of payment request.

The plan should include formal policies and procedures governing program oversight including, but not limited to, the following:

- Requirement for the grantees to submit periodic reports concerning the progress and the status of the projects.
- Process by which the CCC can monitor and evaluate the progress of grant projects and take appropriate action when necessary. Require all monitor and oversight efforts be fully documented in the project files.
- Provision for audit of grant projects either on an interim basis and/or upon completion of the projects.
- Identification of the resources needed to properly carry out the necessary administrative and oversight activities, and allocation of sufficient funds for such activities in the budget process.

**Appendix—  
 Proposition 40 Grant Funds Disbursed  
 to Local Conservation Corps  
 as of February 1, 2007**

Contractor	Total Disbursement
Conservation Corps Long Beach	\$ 1,282,545
Los Angeles Conservation Corps	1,282,545
Urban Corp of San Diego	1,282,545
Tulare County Conservation Corps	1,282,545
San Jose Conservation Corps	1,282,545
Orange County Conservation Corps	1,282,545
East Bay Conservation Corps	1,073,167
Sacramento Local Conservation Corps	1,281,637
Fresno COE Local Conservation Corps	1,241,636
San Francisco Conservation Corps	1,275,954
Marin Conservation Corps	1,282,545
Total	<u>\$ 13,850,209</u>

**Attachment A—  
CCC's Response to  
Draft Review Report**

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**CALIFORNIA CONSERVATION CORPS**

1719 24<sup>th</sup> Street, Sacramento, CA 95816  
(916) 341-3207 FAX (916) 324-3347  
www.ccc.ca.gov



June 12, 2007

Mr. Les Lombardo, Chief  
Operations Audits Bureau  
Division of Audits  
State Controller's Office  
P. O. Box 942850  
Sacramento, CA 94250-5874

RE: Response to Draft Audit Findings  
California Conservation Corps - Proposition 40 Grants to Local Conservation Corps

Dear Mr. Lombardo,

The California Conservation Corps (CCC) has reviewed the draft report of the State Controller's Office on the CCC's administration of Proposition 40 grants to local conservation corps.

The CCC agrees with the findings and recommendations contained within the report. The CCC began to address the issues raised in the report in 2006. In order to fully prepare for the implementation of Proposition 84, which enacted provisions calling for CCC allocation and oversight of funds disbursed to local community conservation corps, the CCC has intensified its efforts to adopt standards and protocols for Proposition 84 disbursements that are at least as stringent as the control elements set forth in Executive Order S-02-07, which outlines the Administration's guidelines to ensure accountability for Strategic Growth Plan bond funds.

The CCC's operating budget has been quite lean since the 2001-02 budget year. These harsh budget realities forced the CCC to cut about 50% of its headquarters staff over several years. The fact of the matter is that bond administration, program review, accounting and related administrative activities were cut back significantly as a result of these reductions.

Beginning in 2005, the CCC embarked on a systematic review of existing shortcomings in all program and administrative support offices, and has subsequently taken steps necessary to mitigate delays in accounting, impose operational controls on field and administrative operations, and dedicate staff to ongoing grant review, oversight and control functions. Improvements related to the administration of bond funds were specifically targeted in 2006. These included dedicating staff to bond administration,

Les Lombardo  
June 12, 2007  
Page 2 of 2

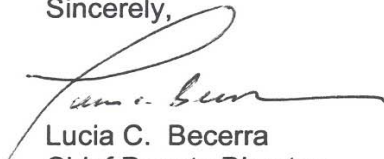
implementing procedures for coordinating the department's bond activities, monitoring the status of bond projects, developing a checklist for reviewing local corps invoices and documentation and following up with local corps on outstanding issues.

In addition, the CCC is working closely with the Resources Agency on planning for the implementation of Proposition 84, and efforts are underway to adopt controls in anticipation of disbursement of funds this year from Proposition 84. This is important to the CCC because we believe the activities associated with Proposition 84 carry a high risk, in that state bond funds will be used to acquire and/or improve real property of non-public entities, an issue underlying the decision by the State Controllers' Office to undertake this report. We are fully committed to taking the steps necessary to ensure the fiscal integrity of the program.

Additional information related to the findings was submitted to the department by local conservation corps. This information will be forwarded to you.

Thank you for your work and assistance in this matter.

Sincerely,



Lucia C. Becerra  
Chief Deputy Director

**Attachment B—  
LCCs' Responses to  
Draft Review Report**

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**CALIFORNIA CONSERVATION CORPS**

1719 24<sup>th</sup> Street, Sacramento, CA 95816  
(916) 341-3207 FAX (916) 324-3347  
www.ccc.ca.gov



June 12, 2007

Mr. Les Lombardo, Chief  
Operations Audits Bureau  
Division of Audits  
State Controller's Office  
P. O. Box 942850  
Sacramento, CA 94250-5874

RE: Responses from Local Conservation Corps to Draft Audit Findings  
California Conservation Corps - Proposition 40 Grants to Local  
Conservation Corps

Dear Mr. Lombardo,

We have complied and listed below several responses from the local conservation corps on the draft report of the State Controller's Office on the California Conservation Corps (CCC) administration of Proposition 40 grants to local conservation corps. Additional responses are anticipated from Fresno Local Conservation Corps and East Bay Conservation Corps, which will be forwarded to you upon receipt.

***FINDING 2 – Evidence suggests that the CCC made little if any effort to monitor the LCCs' grant activities and expenditures.***

*According to the grant agreement between the CCC and the LCCs, the CCC must approve any change in project scope in advance. However, because the CCC did not actively perform monitoring and oversight activities, some LCCs made significant changes in project scope without the CCC's knowledge and approval. The following are some examples.*

**Finding related to Tulare County Conservation Corps (TCCC)**

*Tulare County Conservation Corps' (TCCC) Proposition 40 project included the purchase of a church to be converted into use as a community recreation center and a second parcel to build an administrative building. The CCC was not aware that the TCCC had sold the church to subsidize the construction of the administrative building (see Finding 6). The TCCC may have had legitimate reasons for changing its plans; however, as it advised us, it did not inform or seek approval from the CCC for the changes and, indeed, we found no evidence of such in the CCC's files.*



**Tulare County Conservation Corps (TCCC) Response**

As background please note that the church was not initially acquired for use as a community recreation center. As detailed in the project narrative incorporated into our Prop 40 contract, as well as the Grant Implementation Schedule, the church property was acquired for use as secured parking for our Corps vehicle fleet. Also, we did not purchase a second parcel for an administrative building. The City of Visalia granted the land to CSET, on which the new Corps headquarters and school were built, financed in part by Prop 40 funds.

1

We regret that we did not formally involve the CCC with the change in plans and decision to sell the church. As described in Finding 6 below, the sale of the church was necessitated by the late application of prevailing wages to the project. Due to time sensitive factors such as the impending loss of the lease on our old Corps headquarters we had to raise sufficient cash to keep the construction project moving in a timely manner. If we had known about the prevailing wage requirement from the beginning the church property would likely not have been included in our original plans. We did have conversations with the CCC staff during the process, and Mel Kreb of the CCC visited our site within 30 days of the project completion.

**Finding related to San Jose Conservation Corps (SJCC)**

• After the seller rejected San Jose Conservation Corps' (SJCC) bid on the building approved for Proposition 40, the SJCC purchased a building at a different location. The SJCC, on its own, edited the contract to include the new property and attached it to the original cover of the grant agreement without notifying the CCC. During the audit fieldwork, the SJCC provided us with a copy of the agreement that included the handwritten modification. We did not find the modified version of the contract in the CCC's project file, nor did we find any other evidence that the CCC had reviewed and approved the modification.

**San Jose Conservation Corps (SJCC) Response**

The information that you provided for me regarding Prop 40 and SJCC editing a contract for purchase was approved by the CCC, and all information regarding this approval should be available in the CCC files.

**Finding related to Sacramento Local Conservation Corps (SLCC)**

• Through use of its Proposition 40 funds, the Sacramento Local Conservation Corps (SLCC) acquired an office building on January 19, 2005, and a warehouse on April 5, 2005. The sales purchase agreement with the seller of the office building provided a leaseback provision, giving the seller the right to maintain tenancy for a period up to six months after the property was transferred to the SLCC. During our onsite visit to the SLCC in February 2007, we found both buildings unoccupied. The SLCC had leased the office building to the prior owner for just over three months for a monthly income of \$5,000, which was deposited into the SLCC's general fund. The property has remained vacant since May 2005 while the SLCC continues to pay a monthly lease for occupying its current office building. Moreover, through conversation with its staff, we learned that

*the SLCC is contemplating selling the office building. According to Exhibit E of the grant agreement between the CCC and the SLCC, the grantee "shall use the property for the purposes for which the Grant was made and make no other use of sale or other disposition of the property, except as consistent with the Act and authorized by the CCC." We found no evidence indicating that the CCC knew or approved the SLCC's activities or the action it is contemplating relative to the properties acquired through the use of Proposition 40 funds.*

**Sacramento Local Conservation Corps (SLCC) Response**

1. With regard to the lease back provision in the purchase agreement for the property commonly known as 2708 47<sup>th</sup> Avenue, Sacramento. This is a common practice in negotiating property purchases because the sale was contingent on the owner completing the purchase of a new facility to move to. If this provision in the agreement wasn't included we would have not been able to purchase the building. The owner acted reasonably in his effort to relocate however it was necessary for him to occupy the building for a little over three months. Total rent received by the SLCC was \$16,503.00. The finding states that these funds were deposited in the SLCC's general fund. This statement is incorrect. These rent funds were placed in the building project fund to be applied for the intended purpose of renovating this building and not for general operations. 2
2. The 2708 47<sup>th</sup> Avenue property has remained vacant except for vehicle and equipment storage since being purchased while the SLCC Board of Directors implemented a Capital Campaign to raise the funds to renovate this building and the annex building on 27<sup>th</sup> Street. To date approximately \$400,000.00 has been raised with the original goal of \$1.6 million for the renovation of the two properties. The SLCC Board of Directors established that a minimum of \$700,000.00 was necessary to commence renovations. At the same time the SLCC has been working on the renovation project as well. An architect and various engineering services were engaged to design the interior renovations for the SLCC's intended program use. We also applied for and received a City of Sacramento Planning Department required parking variance with a process that took close to 4 months.
3. At the time of the SLCC audit by the State Controllers office the SLCC was not even aware that the possibility existed for us to consider selling the 47<sup>th</sup> Avenue building and using the proceeds to purchase a building adjacent to our annex building on 27<sup>th</sup> Street, for the same intended purpose while improving on the physical location to better serve the mission of the SLCC. While the 47<sup>th</sup> Avenue location is adequate for the intended purpose, having the main program facility and the Operations annex separated by 2 long blocks is not optimal. The SLCC had contacted the owner of the proposed new building on 27<sup>th</sup> Street prior to purchasing the 47<sup>th</sup> Avenue building back in late 2004. After several attempts to see if they would sell us the building, since it would make for a perfect "total program campus setting" we were clearly told that it was not for sale and we had no reason to believe that it would become available. The SLCC audit by the State Controllers Office was conducted on



February 1, 2007 and it wasn't until mid March 2007 that we were approached by the owner of the potential new building and asked if we were interested in purchasing his building adjacent to our Operations annex on 27<sup>th</sup> Street. Having the Main Headquarters building and the Operations Annex adjacent to one another is certainly much more efficient than being separated by the distance of approximately two long blocks. It was never the intent to sell the 47<sup>th</sup> Avenue to make a profit, but to use the proceeds to purchase the new building and thus more effectively carry out the intended purpose of the funding. The SLCC Board authorized pursuing the possibility of purchasing the new building at their March 22, 2007 Board of Directors meeting.

3

4. On page 4 of the Grant Guidelines published by the CCC for Year Two Funding (FY 03/04) and provided as the Grant Guidelines for Year Three Funding (FY 04/05) page 4 states in the 4<sup>th</sup> paragraph "Use the property only for the purpose for which the grant was made and to make no other use, sale or other disposition of the property, except as authorized by a specific act of the Legislature." Once the SLCC had a signed purchase agreement for the proposed new property adjacent to the 6104 27<sup>th</sup> Street SLCC Annex property we proceeded to seek "an act of the Legislature" as defined in the grant guidelines. No sale will take place until this "act" has been granted. When the proposed Budget Trailer Bill, creating this "Act of the Legislature" was passed out of the Assembly Budget Sub Committee 3 an e-mail was sent on May 23, 2007 to Kim Bushard, with the CCC, by Dwight Washabaugh, Executive Director of the SLCC advising her of this need and action.

3

***Finding 4 – Additional oversight and control measures are needed to safeguard the State's assets and to provide proper accountability over use of grant funds.***

***• Incorporate into the grant application review process an evaluation of the grant applicant's financial viability to successfully complete the project. The value of assets acquired through the use of grant funds is at risk if the grantee is unable to continue operation or does not have the financial resources to fully complete the project. Our review found no evidence that the CCC made any evaluation of the financial well-being of the LCCs, some of which may have been in financially tenuous positions.***

**Finding related to Orange County Conservation Corps (OCCC)**

*In another example, the Orange County Conservation Corps' (OCCC) executive director was forced to make temporary personal loans of \$43,000 and \$31,000 to the OCCC in December 2006 so that it could make payroll. The OCCC obtained a \$50,000 loan and a \$300,000 line of credit using the property it acquired with Proposition 40 funds as collateral. If the OCCC ceases to operate or defaults on the loans, the value and usefulness of the property acquired with bond funds could diminish considerably.*

#### **Orange County Conservation Corps Response**

The OCCC has been through dramatic changes in the past 12 months that left it in a temporarily weakened position financially at the end of 2006. Primary factors include the loss of 50% of the staff during 2006 (taking over 60% of the institutional memory), and two complete turnovers of the Finance department staff. At the time of the above mentioned personal loans, there were no professional accounting staff employed at the OCCC, leading to a backlog of invoicing and receivables in general. The personal loans themselves were outstanding for less than a week, combined.

Since that time, the OCCC has completely staffed the Finance department, and brought in additional temporary help to accelerate the recovery of our financial position. Our outstanding liabilities (including the other two collateral-based loans) has been reduced by almost 40%. Elimination of these debts is expected to take place in the next 3 to 4 months. The OCCC has been serving the youth and young adults of Orange County for over 14 years, and has no plans to cease operating for any reason, financial or otherwise.

**• Require the grantee to obtain independent appraisals on real estate acquisitions made with grant funds.** *The CCC did not require LCCs to obtain appraisals on real estate acquisitions made with Proposition 40 grant funds. As the property acquired typically cost in excess of \$1 million, common business practice would dictate independent appraisals to demonstrate that the amount paid for property was reasonable. During our visits to the LCCs, we found that the only corps with appraisals on file were those that used the publicly funded property as collateral on loans or lines of credit. The LCCs that did not have appraisals to support the purchase price of the real property for the following Proposition 40 funds:*

*Conservation Corps of Long Beach—\$1,240,909  
Orange County Conservation Corps—\$1,240,909  
San Jose Conservation Corps—\$1,240,909  
Tulare County Conservation Corps—\$257,766 (acquisition portion)  
Sacramento Conservation Corps—\$980,000*

#### **Conservation Corps of Long Beach (CCLB) Response**

1. The finding is correct. We were neither informed or received instructions or found any reference to needing an appraisal on the purchase of the property located at 3635 Atlantic Avenue using Prop 40 funds.
2. We did do a sales comparables analysis through CB Richard Ellis, Scott Frazier who served as the broker on the purchase of this building collected this information. If you review the sales price analysis and in particular those properties which were near by; it will become apparent that the price of \$78.31 per square foot is a low comparison to similar properties.



3. The properties that are mentioned in the analysis are predominately not handicapped accessible and would have to be converted in order to meet the criteria of Prop 40.
4. The property of 3635 Atlantic Avenue which we purchased was also not handicapped accessible and the owner agreed to install a 3 story tower elevator and put in a handicapped restroom on the second and third floor where there are offices, meeting rooms and classrooms. Total purchase price of the property \$1,300,000 and as I mentioned that is a \$78.31 per square foot price.
5. Virtually all of the properties listed had restrictions or could not be zoned for classroom purposes, so this site proved to be the most worthy since it was a trade school prior to the purchase by the CCLB.
6. I have attached all the sales comparables for your perusal. (See Attachment 1)

**Orange County Conservation Corps (OCCC) Response**

There is no known formal appraisal of the OCCC property. A thorough search of existing files and extensive contact with all the parties involved in the purchase of the building indicate that an appraisal was never performed.

**Sacramento Local Conservation Corps (SLCC) Response**

The SLCC Board of Directors Building Committee comprised of an Architect, CPA, Banker and other experienced business professionals reviewed with the SLCC Broker other comparable property sales in the area and determined that the purchase price was fair and reasonable based on comparable sales. We had access to the same sales and listing data on comparable sales a real estate appraiser looks at to determine comparable sales and the value per square foot. Prior to purchasing the building, we had looked at over a half dozen locations personally and reviewed every commercial warehouse listing in areas with public transportation access in from Cal Expo to South Sacramento. The Building Committee knew the market value of commercial properties very well and in our opinion was more than qualified to make sure that offer was reasonable and not above fair market value.

We have recently obtained a market analysis of the building's value which indicated a market value between \$1,100,000 and \$1,200,000.

**San Jose Conservation Corps (SJCC) Response**

In response to your email regarding the purchase of 1534 Berger Drive, it is true we did not have it appraised at the time of purchase, as that was not required. But since then, we did get it appraised in Nov. 2004 and wish to share with you the appraised value turned out to be \$1,940,000. The appraisal itself consists of over 30 pages, with attachments of another 30 pages. We have taken the liberty of scanning in page 5, which is a summary of the appraisal. (See Attachment 2)

**Tulare County Conservation Corps (SJCC) Response**

The church property was appraised – at \$325,000 - three months before we acquired it for \$257,766. The State Controller's staff did not make an inquiry regarding this when they visited our site as part of the audit. (See Attachment 3)

4

**Finding 6 – The CCC's staff apparently provided erroneous advice to an LCC, thus unnecessarily complicating the LCC's project-construction effort.**

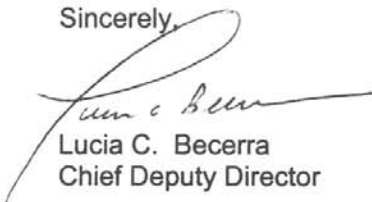
*According to officials at the Tulare County Conservation Corps (TCCC), the TCCC sought advice from the CCC as to whether its construction project needed to comply with the State's prevailing wage requirements. A CCC staff member told TCCC officials, apparently without obtaining legal advice, that prevailing wage requirements were not applicable in the construction project because of the non-profit status of local corps. The officials at the TCCC further noted that, during the bid process, all of the general contractors who submitted bids raised questions as to whether they needed to comply with the prevailing wage requirements; they were told no, based on the CCC's advice. The contractors then submitted bids based on this premise. After contracts were awarded, the local carpenters' union raised concerns about the prevailing wage requirements and TCCC sought an opinion from a local attorney. Upon review, the attorney advised the TCCC that the law allowed no exemptions from prevailing wage on publicly funded construction and that the corps should begin paying prevailing wage. At that point, the TCCC contacted the general contractor and asked him to recalculate the bid based on prevailing wages and to apply the higher pay rate retroactively to work performed. Adjusted to reflect prevailing wages, projected construction costs went from \$2.6 million to \$3.2 million. To avoid abandoning the project, the TCCC sold a church that it had acquired with Proposition 40 funds.*

**Tulare County Conservation Corps (TCCC) Response**

The Tulare County Corps appreciates that Proposition 40 allowed us to develop a new Corps headquarters, and we are grateful for the assistance of the CCC in implementing the grant. In hindsight early review of prevailing wage issues should have received more attention from everyone involved, including Local Corps.

Thank you for your work and assistance in this matter.

Sincerely,



Lucia C. Becerra  
Chief Deputy Director

**Attachment C—  
Fresno LCC's Response to  
Draft Review Report**

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**CALIFORNIA CONSERVATION CORPS**

1719 24<sup>th</sup> Street, Sacramento, CA 95816  
(916) 341-3207 FAX (916) 324-3347  
www.ccc.ca.gov



June 13, 2007

Mr. Les Lombardo, Chief  
Operations Audits Bureau  
Division of Audits  
State Controller's Office  
P. O. Box 942850  
Sacramento, CA 94250-5874

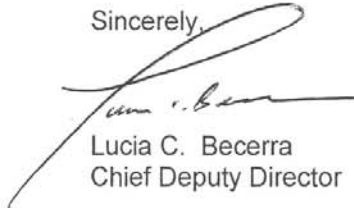
RE: Responses from Local Conservation Corps to Draft Audit Findings  
California Conservation Corps - Proposition 40 Grants to Local  
Conservation Corps

Dear Mr. Lombardo,

Attached is the response from Fresno Local Conservation Corps on the draft report of the State Controller's Office on the California Conservation Corps (CCC) administration of Proposition 40 grants to local conservation corps.

Thank you for your work and assistance in this matter.

Sincerely,



Lucia C. Becerra  
Chief Deputy Director



Helping People. Changing Lives.



**Moses Stites**  
Chairperson

**Roger Palomino**  
Executive Director

June 12, 2007

Lucia C. Becerra  
California Conservation Corps  
1719 24<sup>th</sup> Street  
Sacramento, CA 95816

Re: California Conservation Corps Prop 40 Review

Agreement # 05-5310-0864

Dear Ms. Becerra:

Following is the written response to the findings as pertains to Fresno County Economic Opportunities Commission (EOC) as e-mailed to us on June 1, 2007 from your office.

Finding 3: Some LCCs failed to adhere to established program internal control requirements.

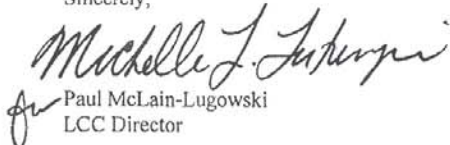
Item 1: "The Fresno EOC Conservation Corps (FEOC) was awarded a grant based on a proposal for land acquisition and construction of a building on the acquired land. In February 2005, the land was granted to the FEOC from the Fresno Redevelopment Agency for a nominal cost. Design and construction of the building began shortly thereafter. On May 26, 2006, the FEOC received \$1.24 million in Proposition 40 grant funds after submitting a preliminary title report to the CCC. According to the grant agreements for real property acquisitions, "Copies of title papers (escrow) and estimated closing costs from the title company must be attached to the payment request . . . prior to advance payments." However, the preliminary title report on property shows that the CCC released to the FEOC, without any evidence that the property was in escrow, two advance payments totaling \$1.24 million. Apparently, by claiming that the costs to be incurred were for property acquisition, the FEOC was able to receive advance payment without providing documentation related to actual costs of the construction project"

Item 2: "According to the RFP that the CCC issued in 2002, each LCC was to provide the CCC with a confirmed copy of the deed of trust or grant deed within 15 calendar days from the date of acquisition of the real property, in order to demonstrate that the transaction has been executed. Our review found no evidence that any of the LCCs submitted such documentation to the CCC for property acquisition projects."

Response to Finding 3: The intent of our Agency for utilization of the funding provided by CCC from Proposition 40 was to develop (i.e. construct) a Neighborhood Youth Center on land that was granted to the Agency at a nominal cost. As a result, the Agency viewed this project as a Development Project rather than a Project Involving Acquisition. Based on this assessment, the documentation forwarded to CCC was based on the understanding of the documents that were required of a Development Project. At the request of CCC, our Agency has provided documents pertaining to the property acquisition of the Neighborhood Youth Center.

I hope the above response satisfactorily addresses the findings regarding the review.

Sincerely,

  
for Paul McLain-Lugowski  
LCC Director

## **Attachment D— SCO's Comments to LCCs' Responses**

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We are providing the following comments to the local conservation corps' (LCCs) responses that were compiled by the California Conservation Corps (CCC). The comments below correspond to the numbers we placed in the margins of the LCCs' responses in Attachment B of this report.

1. We modified our report to reflect this background information.
2. We modified our report to reflect this information.
3. Our finding was about lack of effort by the CCC to monitor the LCCs' activities and expenditures. As an example, we cited the lack of awareness by CCC staff of significant activities such as the fact that the office building purchased with grant funds has never been occupied by the Sacramento Local Conservation Corps (SLCC) and that the SLCC was contemplating selling it. In its response, SLCC stated that its SLCC Board of Directors authorized the purchase of a new building and that it has been pursuing legislative action to dispose of the building acquired with grant funds. All such activities apparently occurred without the CCC's knowledge, which further supports our finding that more oversight effort by the CCC is needed.
4. We deleted reference of the Tulare County Conservation Corps (TCCC) from our report. However, it is incorrect to suggest that the SCO staff did not make an inquiry regarding this matter. In a letter to the TCCC, dated January 17, 2007, announcing our review, we specifically requested the grantee to provide, among other documents, a copy of the property appraisal. The property appraisal was not provided until now.

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, California 94250-5874**

**<http://www.sco.ca.gov>**